OPPORTUNITY FINDER

The Value of Using IRA Annuities

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If your clients are holding all their retirement assets in retirement plans, or institutional Individual Retirement Accounts (IRAs) they're at a financial disadvantage compared with what is otherwise available to them in the market.

Employer-sponsored "defined contribution" plans, like 401(k) or 403(b) plans (often called "defined contribution" or just "DC" plans), can be tremendously efficient platforms for clients to collect and accumulate retirement assets. These plans make it easy for your clients to save for retirement, while giving employers the ability to partially fund it. Clients' assets in DC plans are usually portable (except for some difficult investments, like certain stable value funds with very restrictive distribution rules), and can be carried with them from employer to employer without a financial penalty. DC plans often provide a rare chance at scale, giving your clients a chance to participate in certain investments at costs which may otherwise be unavailable to them.

Institutionally based IRAs are also valuable, being widely used by advisors as flexible investment platforms that are useful to collect and consolidate assets. IRAs provide the advisor and their client the ability to control the investment without the impediments or controls which may be otherwise imposed by DC plans.

In spite of their value, DC plans and institutional IRAs can cause problems when your client has saved enough assets to begin to consider individualized financial and estate planning. This is because of the very nature of those platforms: They are simply designed to save assets, not to do anything else with them. Their purpose is only to accommodate the "bulk" distribution of retirement assets, in an automated way, and in a way which will create the least administrative burden on the financial institution administering the plan or the IRA. Their documents provide very little flexibility in the manner, to whom, and over what period of time payouts will be made. They pay little attention to the tax rules, other than compliance with the "minimum distributions" that are required to be made from IRAs and retirement plans after the client attains age 70½, and their other terms may not be "client friendly."

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In addition to these concerns, many institutions supporting the platforms not are staffed with the expertise to support the variety of beneficiary payouts and schemes that an individualized financial plan may demand. This is particularly true when your client has multiple IRAs and any one of the IRA custodians is unable to make accommodations that coordinate with the others; or when your client doesn't get the custodian's attention because they have "only" an average amount of assets within their plans or IRAs.

There are several common circumstances where the advisor will see this affecting their clients:

PER STIRPES BENEFICIARIES

DC plan documents are usually very simple, and their language will not accommodate a "per stripes" successor beneficiary designation. A "per stirpes" designation divides the account proportionally between beneficiaries in accordance with their deceased relative's share of the account. Institutional IRAs often have very limited beneficiary language as well, and it is often difficult to find technical support within those organizations to accomplish it. This can have a meaningful, negative, impact on your client's estate planning.

UNIFORM TABLES

Institutional IRAs generally do not recognize the uniform life expectancy tables for beneficiaries more than 10 years younger than the IRA owner. This may force an unwanted, early payout for the IRA owner. DC plans generally will not permit lifetime payouts as a distribution option at all – and in particular to beneficiaries.

VARIED BENEFICIARY DESIGNATIONS

Institutional IRAs often suffer system constraints and cannot systemically honor multiple or unusual beneficiary designation splits. DC plans suffer the same problem – even something as simple as the fact that their forms cannot accommodate such practices. Customization is not normally tolerated in DC and institutional arrangements. This often forces additional, and unnecessary, trust documents and the related expenses and complexity.

BURDENSOME LANGUAGE

Institutional IRAs may force any dispute into arbitration, and DC plans have a cumbersome claims and appeals process which defers to the original party denying a beneficiary claim.

These are just a few examples; you are likely to encounter many others in your practice over time.

A number of alternative solutions are available in the market for you to offer to your clients, even if they are not considered "high net worth." A number of experts have commented on the fact that truly effective "post-retirement" planning requires advisors and asset managers to collaborate with other institutions, especially insurers, to develop innovative solutions that clients will value.

An Individual Retirement *Annuity* offers the opportunity for your client to avoid being treated on a "bulk" basis by institutional IRA programs and DC plans. Insurers' processes and systems are historically designed to accommodate complex planning arrangements, while offering a wide mix of financial products that just aren't available under institutional IRAs or DC plans.

It would benefit you and your client to review the distribution and beneficiary language in their IRA documents, or under their DC plans, to understand their limited nature. Your clients are entitled to those documents, and can request them from either their employer or their IRA institution. You may find that rolling a client's funds into an Individual Retirement *Annuity* can permit you to create truly integrated solutions that will allow them to take financial control of their retirement.